



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Edelen Releases Audit of Graves County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Adam Edelen has released the audit of the financial statements of the Graves County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

**The County's 4<sup>th</sup> quarter financial report should be prepared in accordance with KRS 68.360.** According to the 4<sup>th</sup> Quarter Financial Report, the fund balance of the Road Fund as of June 30, 2011 was (\$29,879). This apparent deficit was the result of a Road Fund certificate of deposit (CD) totaling \$71,089 that was excluded from Road Fund activity on the 4<sup>th</sup> Quarter Financial Report.

KRS 68.360(2) states, "the county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund."

Given the fact that the County failed to include the balance of the CD and the associated interest earned on its year-end 4<sup>th</sup> Quarter Financial Report, the County is non-compliant with KRS

68.360(2). Therefore, in the future, we recommend the County's 4<sup>th</sup> Quarter Financial Report be complete as to all receipts, expenditures, and fund balances in order to accurately reflect the financial activities and condition of the County.

*County Judge/Executive Tony Smith's response: Will make every effort to comply.*

**Expenditures should not exceed line-item appropriation amounts.** While reviewing the County's budget and 4<sup>th</sup> Quarter Financial Report for the fiscal year ending June 30, 2011, we noted expenditures in the General, Road, Jail, D.E.S., and Adult and Juvenile Housing Funds that exceeded the amount appropriated by the County's approved budget. According to KRS 68.300, "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim". Therefore, in the future, we recommend the county treasurer and finance officer monitor the budget more closely and the fiscal court amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding line-item budget amounts.

*County Judge/Executive Tony Smith's response: Will monitor the budget more closely.*

**Internal controls over the collection of and accounting for payroll taxes should be strengthened.** During the testing of payroll taxes, also known as license fees, we noted deficiencies in internal controls over these receipts, which leave them susceptible to errors and misappropriation. Deficiencies such as missing tax returns, the lack of a subsidiary ledger, the lack of timely deposits, and the lack of record-keeping and collection of delinquent taxes put payroll taxes at a high risk that errors or fraud could occur and go undetected.

Strong internal controls over receipts are essential in assuring that they are properly recorded and protecting them from theft or misappropriation. Not only do strong internal controls protect the receipts at hand, but they also protect the individuals or employees that are in charge of accounting for them.

Therefore, we recommend the County strengthen internal controls over the collection of and accounting for payroll taxes. By implementing controls such as a subsidiary ledger, whereby all payroll tax receipts for each day are recorded and batched, daily deposits, and record-keeping and collection of delinquent taxes, the County can reduce the risks currently associated with payroll taxes.

*County Judge/Executive Tony Smith's response: We will work with the Auditor's office to improve our system.*

**Internal controls over the financial reporting of capital assets and infrastructure should be strengthened.** Material weaknesses exist over the reporting of capital assets and infrastructure of Graves County. Capital assets records were incomplete as to county assets, depreciation amounts, accumulated depreciation amounts. Also, current year disposals could not be determined due to past assets being reported in lump sums.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting as well as protect assets from misappropriation.

In order to strengthen the county's internal controls over capital assets and infrastructure, we recommend the county establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are purchased. It should also be updated as to annual depreciation and accumulated depreciation amounts and current year disposals. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

*County Judge/Executive Tony Smith's response: We will work with the Auditor's office to improve.*

**Internal controls over the financial reporting of liabilities and debt service should be strengthened.** Material weaknesses exist over the reporting of liabilities and debt of Graves County. The June 30, 2011 outstanding debt balances reported on the 4<sup>th</sup> Quarter Financial Report were materially misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls such as comparisons of payment amounts and outstanding balances to amortization and payment schedules should be made regularly. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

*County Judge/Executive Tony Smith's response: After working with the Auditor's office, this has been resolved.*

**Internal controls over expenditures should be strengthened.** Material weaknesses exist over expenditures of Graves County. While testing expenditures, we noted purchase requests were not filled out properly, expenditures that were not recorded under the proper expenditure code, and expenditures that were not properly approved.

Strong internal controls over expenditures are essential in assuring expenditures are properly approved and recorded. They are also vital to ensuring that all expenditures are for the official business of the county.

Because of their importance, we recommend the county strengthen internal controls over expenditures. By requiring all expenditures to have a properly executed purchase request that includes the vendor, estimated amount of the expenditure, a suitable appropriation code in conformity with DLG accounting codes, and authorizing agent, the county can strengthen the internal controls structure over expenditures. Also, by requiring all expenditures to have fiscal court approval prior to payment, the county can ensure that all expenditures are for the official business and operation of the county.

*County Judge/Executive Tony Smith's response: Will try to improve our weaknesses.*

**The Graves County Fiscal Court did not establish procedures to ensure compliance with procurement compliance requirements.**

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Compliance Area: Procurement

Amount of Questioned Costs: \$0

During testing of compliance requirements, auditor noted that invoices for clean-up of a federal disaster totaling \$1,569,682 that dated back to May of 2009 were paid in fiscal year 2010-2011. The fiscal court did not pay the vendors due to a cash shortage. KRS 65.140 requires vendors be paid within 30 days of receipt unless contract specifies otherwise. KRS 65.140 also states "An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser." Federal compliance requirements over procurement require the fiscal court to comply with applicable local, state, and federal laws. OMB A-133 also requires monitoring of all material compliance requirements to ensure compliance. We recommend the fiscal court establish procedures to ensure compliance with all OMB A-133 compliance requirements and ensure compliance with local, state, and federal laws. We also recommend the fiscal court enlist the County Attorney to determine the amount of interest, if any, due to the vendors that were not paid in accordance with KRS 65.140.

*County Judge/Executive Tony Smith's response: The intent was not to borrow money from the bank until absolutely necessary to re-pay the contractor for 2009 ice storm.*

**The Graves County Fiscal Court failed to implement internal controls over federal compliance requirements-activities allowed or unallowed/allowable costs, cash management, procurement and reporting.**

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Pass-through Agency: Department of Military Affairs

Compliance Area: Activities Allowed or Unallowed/Allowable Costs, Cash Management, Procurement and Reporting

Amount of Questioned Costs: \$0

During testing of internal controls, we noted no documentation of monitoring of federal compliance requirements- Activities Allowed or Unallowed/Allowable Costs, Cash Management, Procurement and Reporting. The fiscal court did not possess an understanding of

federal compliance requirements. The weakness in internal controls led to vendors payments totaling \$1,569,682 being held in excess of one year prior to payment. We recommend the Fiscal Court require internal controls for monitoring OMB Circular A-133 requirements be established and documented to reduce the risk of material non-compliance with OMB Circular A-133 compliance requirements.

*County Judge/Executive Tony Smith's response: Will do our best in the future to be better informed if we are ever hit with another disaster.*

The audit report can be found on the [auditor's website](#).

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